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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
ROCKY MOUNTAIN POWER FOR)	CASE NO. PAC-E-13-6
AUTHORITY TO SELL THE ST. ANTHONY)	
HYDROELECTRIC GENERATION PLANT)	
LOCATED IN FREMONT COUNTY, IDAHO.)	COMMENTS OF THE
)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donald L. Howell II, Deputy Attorney General, submits the following comments in the above referenced case.

BACKGROUND

On April 9, 2013, PacifiCorp dba Rocky Mountain Power filed an Application pursuant to *Idaho Code* § 61-328 for authority to sell a hydroelectric facility located within the city limits of St. Anthony, Idaho.¹ This facility shares a FERC license with the nearby Ashton facility. The hydro facility consists of a 1-unit powerhouse that contains submerged double horizontal K-style turbines that were commissioned in 1915. Application at ¶ 4. The facility is powered by diverting

¹ When Rocky Mountain initially filed its Application, the entire sales agreement was marked confidential. After discussions with Commission Staff, the utility re-filed the sales agreement and several exhibits on May 17, 2013, but redacted certain information it claimed was trade secret pursuant to Rule 67 and *Idaho Code* § 9-340D.

water from the Henry's Fork of the Snake River. The turbine is rated at 750 horsepower. The "head works" or diversion dam are also used to meet the utility's obligation to deliver water to the Egin Bench Canals, Inc. The facility's generator has been out of operation since 2002 when the shaft that connects the two turbines failed. *Id.*

A. The Statutory Standards

Idaho Code § 61-328 governs the sale of utility property located within the State of Idaho. Briefly, this section provides that no electric utility may dispose of generating property "except when authorized to do so by order of the public utilities commission." *Idaho Code* § 61-328(1). Before authorizing a sale of utility property, the Commission must find: (1) that transaction is consistent with the public interest; (2) the cost of and rates for supplying service will not be increased by reason of such transaction; and (3) the purchaser has the bona fide intent and financial ability to operate and maintain said property in the public service. The utility bears the burden of showing that the standards set out above have been satisfied. *Idaho Code* § 61-328(2).

The Commission has been vested with the authority to approve, reject or condition the transaction. The Commission may attach such terms and conditions as in its judgment the public convenience and necessity may require. *Idaho Code* § 61-328(4). In addition, the Commission shall include in any authorization to dispose of utility facilities "the conditions required by the director of the department of water resources under section 42-1701(6)." *Id.*²

B. The Application

As discussed in greater detail below, the Company analyzed three alternatives before deciding that the sale of the facility was the most appropriate alternative. The utility maintains the sale of the facility is in the public interest because it "represents the best balance of cost and risk for customers. Discontinuance of operations associated with the St. Anthony hydroelectric generating plant . . . will not adversely affect retail or wholesale customers." Application at ¶ 15. The utility further maintains the loss of the plant's 0.625 MW generation capacity "will have no material effect on Rocky Mountain Power's generation capacity which is comprised of approximately 10,579 MW." *Id.* (Footnote omitted) Moreover, the utility believes that St. Anthony Hydro LLC has the financial ability and intent to operate the plant in the public interest as demonstrated by its willingness to enter into a power purchase agreement (PPA).

² On June 19, 2013, the Idaho Department of Water Resources (IDWR) filed comments in this case. The Director of IDWR stated in his comments that the sale would not "cause injury to other water right holders, and I do not propose to add conditions to the sale of the water right." IDWR Comments at 1.

STAFF ANALYSIS

Staff has reviewed the analysis performed by the Company that led to the sales agreement of the St. Anthony hydro project, the RFP process, and its proposed accounting treatment should the sale be approved by the Commission. Staff believes the sale of the St. Anthony hydro facility is the preferred option. Staff believes the proposed sale is in the public interest and satisfies the standards set forth in *Idaho Code* § 61-328(1), and does not adversely affect Rocky Mountain customers.

Staff Review of the Sale

Rocky Mountain Power initially evaluated three alternatives before deciding the sale of the facility (Alternative 4) was the most appropriate alternative. The first three options are:

Alternative 1: make the necessary repairs and upgrade the facility to increase the amount of generation from the plan;

Alternative 2: perform minimum repairs to the failed shafts, replace the wooden flume feeding water into the turbine; and

Alternative 3: decommission of the generating facility in 2013.

The Company employed a financial analysis model that is routinely used in making its hydro investment decisions. The model calculates the 40-Year Present Value of Revenue Requirement (PVRR) and 40-Year Nominal Levelized Cost in \$/MWh based on assumptions of, among other things, capital cost, O&M cost, and prices associated with replacement or foregone generation. Under all three alternatives, the analysis demonstrated that net costs would exceed benefits. The Company consequently evaluated the option of selling the plant “as is” (“Alternative 4”), with the assumption that the power would be purchased back from the new owner via a PPA.

Staff reviewed the Net (Cost)/Benefit-PVRR for each of the four alternatives, as well as the costs included in each alternative. As part of its review, Staff met with the Company (via webinar) to examine the decision model and the input assumptions utilized in its analysis. Staff believes Rocky Mountain relied on reasonable estimates of capital and O&M costs, as well as decommissioning costs. The Company’s analysis employs its forward market price curve to value the generated (Alternatives 1 and 2) or lost energy (Alternatives 3 and 4) from the project, which Staff will further discuss below. Alternative 4 also included costs based on the PPA to offset the revenue associated with the energy “freed up” for sale into the market. Staff believes the

assumptions were applied consistently among the alternatives, and with the exception of the reliance on market prices in the benefit/cost analysis, are fundamentally sound.

Based on the Company's analysis, the sale of the asset, Alternative 4, produced the most favorable Net (Cost)/Benefit-PVRR and Levelized Annual Cost by a wide margin. Alternative 4 was nearly twice as beneficial over decommissioning, four times as beneficial as Alternative 2 and eight times as beneficial as Alternative 1. The large disparity is due mainly to the considerable upfront capital outlays necessary for upgrading the facilities and ongoing O&M, as well as the upfront decommissioning costs.

Staff notes that even though Alternative 4 was the best performing option, it still produced a net cost to the Company. The net cost includes expenses associated with the facility sale (consisting of legal costs, FERC processing costs, regulatory processing costs and internal labor costs), and ongoing O&M until the transfer of the asset is complete. The remaining balance consists primarily of the difference between the PURPA and market rates for 2013-2033.³ The net loss is *de minimus* given the size of the transaction relative to PacifiCorp's customer-generated revenue, and would not result in a rate increase, thus satisfying condition 2 of *Idaho Code* § 61-328(3).

Staff recognizes the decision model utilized in the Company's analysis is its standard for evaluating hydro projects, but the use of market price for power may be inappropriate given the size of the facility. The capacity of the plant is such that any increased or decreased output would not conceivably lead to a market sale or purchase. More likely, the Company would accommodate the change in generation through the use of its other plants. But since the plant accounts for only a slight fraction of the Company's generation fleet (0.6 MW÷10,579 MW), Staff presumes that the cost (benefit) of the replaced (offset) generation would largely go unnoticed in Rocky Mountain's annual net power supply cost.⁴ Staff believes the decision surrounding the St. Anthony hydro project ultimately boils down to whether the stream of PUPRA payments outweigh the upfront capital and ongoing O&M expenses of the plant. Based on the assumptions in the Company's model, it is clear that relieving itself of ownership is in the best interest of Rocky Mountain and its customers. Staff therefore concurs with the Company that selling the St Anthony Hydroelectric plant is the most cost effective alternative.

³ Staff has reviewed and commented on the proposed PPA in Case No. PAC-E-13-07.

⁴ Put in perspective, the average annual value of cost of replacement power in the Company's analysis was approximately \$200,000. The Company's last ECAM filing showed a net power cost of \$1.5 billion in 2012.

The RFP Process

Upon determining that selling the facility “as is” was the most cost-effective alternative, the Company prepared a Request for Proposals (RFP) and distributed the RFP to 31 parties that expressed interest in acquiring the facility. Application at ¶ 10. Of the 31 parties that received the RFP package, 13 completed the nondisclosure agreement and were given access to confidential operation records and accounting information. Six parties provided letters of interest and only three submitted conforming offers. Of the final three, the bid submitted by St. Anthony Hydro, LLC was selected as the “the best balance between cost and risk.” *Id.* at ¶ 12. St. Anthony Hydro proposes to restore the facility to operation and enter into a PPA with Rocky Mountain and sell the facility’s output to Rocky Mountain at PURPA avoided cost rates. The PPA is contingent upon the Commission’s approval of Rocky Mountain selling its facility to St. Anthony Hydro. PPA § 2.1. As Staff discussed in its comments in PAC-E-13-07, the negotiation and approval of the sale using 2012 PURPA rates further meets the conditions of sale outlined in *Idaho Code* § 61-328(3).

The Company evaluated bidders on a number of criteria, including experience with owning and operating small hydro projects and the ability to provide indemnification to the Egin Canal Corporation, who are co-operators of the canal. St. Anthony Hydro offered the preferred purchase option of the three finalists, and has considerable experience designing and operating small hydro projects. The buyer was also the only bidder who showed clear ability to assume Rocky Mountain Power’s maintenance and regulatory responsibilities of its share of the canal. Staff reviewed the letter of interest and financial statements presented by the buyer, as well as a letter of credit submitted by NW Farm Credit Services. Once construction timelines are met by the end of 2013, St. Anthony Hydro will qualify for tax incentives on the project, further improving the financial ability to operate the facility. The Company’s filing demonstrates that St. Anthony Hydro has the financial ability and intent to operate and maintain the St Anthony plant in the public interest, thus satisfying the third condition of *Idaho Code* § 61-328(3).

RECs

The parties agreed to split ownership of the renewable energy credits (RECs), where Rocky Mountain would receive the RECs for the first ten years of the PPA, and the QF would retain them thereafter. St. Anthony Hydro was also the only bidder who would agree to that arrangement. The Company did not include REC revenues in its initial analysis, though, given the

currently depressed values and immature voluntary REC market in the West, Staff believes the incremental dollar benefit from partial REC ownership is minimal.

Water Right

PacifiCorp has a water right for its hydroelectric facility of 700 cubic feet per second (cfs), non-consumptive use for hydro power operation. Water Right No. 21-12914. The priority date for the water right is December 20, 1912. Application at ¶ 5. The utility was granted an extension of time by the Idaho Department of Water Resources (IDWR) to resume beneficial use of the water right until December 31, 2012. On March 12, 2012, IDWR accepted the utility's application to place the facility's water rights in the State water supply bank. Consequently, the water rights will remain valid in the water supply bank until June 30, 2017.⁵ The parties anticipate that if the Commission approves the Application to sell the facility, the water rights will be withdrawn from the bank and transferred to the new owner when the plant resumes operations.⁶

Accounting Treatment of the Sale

Although Rocky Mountain has determined, and Staff agrees, that the best alternative is to sell the hydro facility "as is," the transaction "will result in [a] sale below remaining book value of the facility, akin of the decommissioning alternative." *Id.* at ¶ 11. Because this plant is operated under a FERC license, the utility will reflect the sale under FERC accounting procedures. Net proceeds will be included in FERC Account 108 as part of the Ashton-St. Anthony project. The Company maintains that this accounting procedure is consistent with past practices and approvals such as when the Cove Development was decommissioned on the Bear River. *Id.*

Rocky Mountain utilizes composite depreciation accounting methods consistent with past practices and approvals.⁷ This is an approved method within the industry where assets are aggregated to reduce recordkeeping costs of determining periodic depreciation. Under this method, dispositions are recorded under the assumption the book value of the disposed item exactly equals the proceeds received and no gain or loss is recorded. Staff has reviewed the proposed entries for recording the sale of the St Anthony plant and found them to be consistent with past practices and in accordance with generally accepted accounting principles (GAAP)⁸. The exact book value of the transactions and entries will not be known until equipment sales are

⁵See *supra* n.2.

⁶In a companion application in Case No. PAC-E-13-07, the Company and St. Anthony Hydro anticipate that once repaired, the facility will resume operation on or about November 30, 2013.

⁷Case No. PAC-E-07-5, McDougal Exhibit Part II p. 8, 11. See also PacifiCorp 10-k filing dated Dec. 31, 2012 (Auditors Notes to the Consolidated Financial Statements #2).

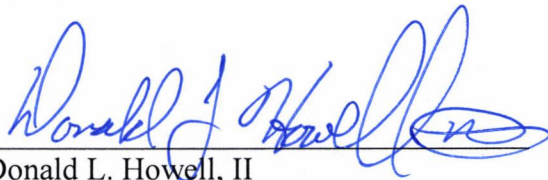
⁸GAAP Codification Topic 360.

closed. *Id.* at ¶ 14. Therefore, Staff recommends the Company file the final accounting entries associated with the sale within 45 days of closing.

RECOMMENDATIONS

Staff recommends the Commission approve Rocky Mountain Power's Application for the authority to sell the St Anthony Hydroelectric Generation Plant located in Fremont County, Idaho. Staff believes the transaction satisfies the utility sale of property criteria set forth in *Idaho Code* §61-328. Staff also believes the proposed accounting treatment is reasonable and recommends Rocky Mountain Power be directed to file the final accounting entries associated with the sale within 45 days of closing.

Respectfully submitted this 24th day of June 2013.


Donald L. Howell, II
Deputy Attorney General

Technical Staff: Bryan Lanspery
Sandra Walker

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **24th** DAY OF JUNE 2013,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE
NO. PAC-E-13-06, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE
PREPAID, TO THE FOLLOWING:

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A handwritten signature in blue ink, appearing to read "Amanda D. Koch", written over a horizontal line.

SECRETARY